



**“LOCAL SELF-GOVERNANCE AND ROLE OF
MUNICIPALITIES IN POVERTY REDUCTION
IN AZERBAIJAN”**

A3BA32 & A3BA33

BAKU- 2005

Project number: **A3BA32 & A3BA33**

Project title: **“LOCAL SELF-GOVERNANCE AND ROLE
OF MUNICIPALITIES IN POVERTY
REDUCTION IN AZERBAIJAN”**

Organization's name: **Expert Economic Magazine**

Project duration: **12 (twelve) months**

Project start and end dates: **01. 05. 2004 - 30. 04. 2005**

Project budget (in euro) - 7,771 (seven thousand seven hundred and seventy one)
Project budget (in AzM) - 47,809,000 (forty seven million eight hundred and nine thousand)
Including: AZBA32 - \$ 2,132
AZM 12,916,000
AZBA33 - \$ 5,639
AZM 34,164,900

Target area: **Municipality budgets**

Target groups: Municipality officers and members, community members,
poor men and women in municipalities, (socially)
vulnerable groups, NGOs, and mass media

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2. PROJECT CONTEXT

2.1 Project aim: The project aims to direct local budgetary funds towards municipality programmes on social and economic development and to achieve an advance in the lives of poor men and poor women in municipalities, in order to increase the role of municipalities in poverty reduction through expanding community accountability in the local budgetary process and increasing transparency of budgetary funds.

2.2. Project objectives. The results of our activities with municipalities in Stage II of the Transparency Budget Project showed that paper work (ie drawing up of documents) related to self-governance in areas delegated to municipality jurisdiction has been done in an improper way. These documents roughly reflect amounts and sources of budget receipts, including total of expenses and their items, thus making it impossible to ensure both public accountability and financial control, as well as community participation in the budgetary process in local communities. This accounts for the facts that municipalities have no experience in preparing comprehensive budget documents, justifying them, detailing expense items, designing local social and economic development programmes, allocating costs in due course according to these programmes, submitting these documents for public comments, hearing community proposals and remarks, summarising them, etc. In order to achieve objectives, we have placed more emphasis on two targets (sub-items):

1. Providing methodical and institutional assistance to municipalities with budget performance. It includes:
 - technical and methodical assistance to municipalities with improvement of budget management.
 - technical and methodical assistance to municipalities with designing of local social and economic development programs.
2. Achieving institutional changes in local budgeting. It includes:
 - increasing public accountability of municipalities in respect of their budgetary activities;
 - involving community participation on decision-making in local budgets, hearing and taking into consideration their comments (ie promoting citizens to exercise right to public comments);
 - increasing access of concerned groups to budget-related databases (e.g. publication of information on the local self-governance in the press, installation of corners for budget documents in areas delegated to municipality jurisdiction, etc).

2.3. The project encompassed the following activities, with a view to implementing these targets:

1. Selection of three (3) pilot municipalities with different development levels and economic and financial potentials (village, settlement, city/town);
2. Provision of hardware (ie a computer set is purchased for each) to the selected municipalities, in order to carry out projected work;

3. Formulation, discussion, and approval of drafts documents reflected in the budgetary package in each municipality. Here, it is essential to formulate the following draft documents:

- the draft budget as of next year;
- information about receipts and expenditures items in the budget in the current (or previous) fiscal year;
- Classification of sources on budget receipts (it includes the list of land, property, etc tax payers in municipalities, as well as potential incomes from other sources);
- Detailed classification of budget expenditures, including but not limited to the programmes;
- Designing of appropriate documents for State subsidies and justification of the amounts;
- Designing of municipality programmes on social and economic development;
- Cataloging for vulnerable groups;
- Compiling of a social assistance list (by showing the number of beneficiaries to be impacted and the benefit amounts to be paid).

4. Studies of civil initiatives associated with the budget and arrangement of discussions with involvement of community participation in decision-making processes in local budgets:

- designing of a community post for civic initiatives;
- arrangement of community discussions (eg round table talks, public hearings, sessions, etc actions), with a view to revealing community problems of municipalities;
- involvement of community-based organisations (if any) or community members in municipalities;
- arrangement of consultations (round table talks, conversations, etc. actions) with categories of social groups (eg respected persons in local communities, teachers, young people, women, etc. groups);
- discussion and approval of the draft budget for the next year and the budget-related reporting (budget hearing);
- community awareness on budget-related information;
- publication of budget-related information in the press (if any) in areas delegated to municipality jurisdiction;
- access to electronic communications, such as local radio, TV channels (if any) in areas delegated to municipality jurisdiction;
- installation of corners and placement of budget documents in these corners in areas delegated to municipality jurisdiction;
- placement of the package of budget-related documents in school or community (public) libraries, with a view to having access;
- creation of the environment to have access to these documents in municipal offices;

6. preparation and issue of three (3) methodological manuals in 1,000 copies each on the basis of the proved activities and experiences.

2.4 The following activities have been implemented during the project implementation:

1. Three (3) pilot municipalities have been targeted for cooperation within the project. On May 14, 2004, discussions witnessed by Programme and Policy Officer L. Karimli at Oxfam Azerbaijan (GB), Azer Mehtiyev, Project Coordinator, and Y. Abdulla at Aran Humanitarian Regional Development took place, in order to select criteria. The discussions established principles on selection of partnering municipalities and geographical scope of activity. In order to reach project objectives, it was decided to select partners among municipalities, that cooperate with ARAN. The selection applied on municipalities were carried out on the basis of the following criteria:

- interest shown by municipality councils in the implementation of activities within the project;
- the activity level of community members in municipalities;
- the actual degree of decentralization of municipalities from local state administration authorities;
- geographical features of municipalities (eg remoteness, the activity level of local NGOs, etc.);
- economic and social potentials of municipalities;
- the real situation in municipalities with regard to the budgetary process;
- opportunities of municipality officers for reappointment.

On June 18, 2004, ARAN hosted a joint session with participation of representatives of ARAN and Expert Economic Magazine witnessed by PPO L. Karimli. The event, which was aimed at coordinating the projects, determined the following partnering municipalities by taking into consideration project activities implemented by ARAN, related experience practised by Expert Economic Magazine in the previous stage of the project, as well as selection criteria:

- Barda Town Municipality;
- Aran Settlement Municipality in the Yevlah region – it was later (since December) replaced by Qaravelli Village Municipality in the Agcabedi region;
- Hanarab Village Municipality in the Barda region.

We faced problems with the Aran Municipality in the further period. It occurred due to violence against the chief municipality officer by the head of the Yevlah region executive power because of the municipal election that was to take place in December. The relations set between the executive power and municipality officer brought to paralysis of the latter, thus leading to failure to cooperate with the Aran Municipality within the project. Therefore, on November 11, 2004, the issue related to selection of a new partnering municipality was discussed with participation of L. Karimli, and ARAN representatives at the latter's Office. It was decided to work with the Qaravelli Village Municipality in the Agcabedi region, as it complied with the selection criteria. Cooperation with this municipality has begun since December 2004.

On June 29, 2004, ARAN saw a session dedicated to familiarity with representatives of the partnering municipalities (C. Abdullayev, chief officer of the Hanarab Municipality and members of the Barda Town Municipality – Ehtiram Ceferov at the Budget

Committee and Qeybet Akberov at the Economic Committee. The session discussed the context of activities with municipalities within the project.

Further sessions took place directly in the areas of these municipalities.

2. Hardware distribution (information processing system): The municipalities have been provided with the following equipment:

Barda Town Municipality:

- Computer – 1 (one) piece
- Laser printer - 1 (one) piece
- UPS– 1 (one) piece
- Power-system stabilizer – 1 (one) piece

Hanarab Village Municipality:

- Computer – 1 (one) piece
- Laser printer - 1 (one) piece
- UPS– 1 (one) piece
- Generator – 1 (one) piece

Qaravelli Village Municipality:

- Computer – 1 (one) piece
- Laser printer - 1 (one) piece
- UPS– 1 (one) piece
- Power-system stabilizer – 1 (one) piece

It is, however, worth stressing that as the purchase of the equipment above was intended in the AZBA233 project, the computers had only been distributed to the municipalities in November 2004 (in the seventh month of the project implementation).

3. Round table talks and consultations with persons responsible for budgetary financing issues and heads of community-based communities. These sessions chiefly focused on project-related activities and proper recommendations for local municipality officers and persons dealing with budgetary financing, with a view to improving the existing budgetary system. Such sessions have been attended by about 650 persons (municipality members and community representatives) from the three municipalities, including but not limited to from:

3.1. Barda Town Municipality. During the project implementation 11 sessions with participation of municipality representatives and members of the community-based committees (some 300 persons) functioning in areas delegated to Barda Municipality jurisdiction.

3.2. Hanarab Village Municipality. During the project implementation 10 sessions with participation of municipality officers and categories of social groups (about 200 persons) living in areas delegated to Hanarab Municipality jurisdiction.

3.3. Qaravelli and Aran Village Municipalities. During the project implementation seven (7) sessions with participation of Qaravelli and Aran Municipality representatives

and community members (about 150 persons) living in areas delegated to these municipalities have been held.

4. Actions aimed at investigating civil initiatives. The arrangements listed below was chiefly aimed at gaining access to opinions voiced by community members in municipalities, as well as categories of social groups, in order to identify budgetary priorities, as well as access to information whether the institutions of self-governance take into consideration public initiatives in decision-making processes:

4.1 designing of community posts (post-boxes) for civil initiatives. The main purpose of designing this post was to involve in budget-related community participation the people who had difficulty in expressing their comments and ideas in public or felt shy for any of several reasons. In addition, abundance of household/economic activities in rural areas impede locals to attend events on a regular basis. So, availability of the community post is significant. Three (3) letter-boxes with the functions on them in the Barda and Qaravelli Municipalities each, while two (2) in the Hanarab Municipality had been installed to that end. Local communities have been informed about it through both public sessions and advertisements.

4.2. Study of public comments in connection with the problems at issue. To that end, a number of sessions (including ones with two community-based committees –“Inam” consisting of residents at C. Cabbarly Street and “Reshad” consisting of residents at M. Huseinzade Street delegated to Barda Municipality jurisdiction) aimed at investigating community problems at the spot have been convened in areas where community-based committees are located. The sessions have discussed public problems at Barda, as well as provided representatives of these committees with guidelines to devise grant projects on various problems. Draft models (in 15 copies) have been distributed among them. Similar sessions have taken place in the Qaravelli and Hanarab Municipalities as well. The total number of persons involved in these events is about 175.

4.3. Round table talks with categories of social groups. These events were organised for categories of social groups (eg respected persons in local communities, teachers, young people, etc. groups) and municipality members, in order to provide information related to existing problems in a comprehensive reporting format. Discussions during these round table talks extended to the following themes:

- exposure of key problems budgetary funds that will face when drafting the 2005 municipal budget and prioritising of expenditure items (consultation-type round table talks);
- Appraisal of problems related to existing social and economic development in municipalities and one of decision-making processes (round table talks through both consultative and reporting ways);
- explanation of working principles of software developed for management of budgetary processes and accounting system in municipalities (round-table talks of educational nature with both municipality members and officers).

13 round-table talks attended by 226 persons in total have been held in the three municipalities during the project implementation.

Including:

4.3.1. In the Barda Municipality:

- **on July 22** a round-table workshop attended by municipality members, leaders of communities and committees (26 persons) informed about aims, significance, and objectives of the budget transparency project, discussed scores of problems available in the Barda Municipality, and announced perspectives and features of joint activity into the future;
- **on September 24** participants in round-table talks attended by municipality members, representatives of community-based committees, and active young people (18 persons in total) discussed the status regulating budget transparency, as well as aired views;
- **on October 14** round-table talks with the participation of Barda's community members, as well as members of the existing community-based committees (27 persons in total) discussed designing of a municipality programme for 2005 on social and economic development.

4.3.2. **In the Hanarab Municipality:**

- **on July 22** a workshop attended by five (5) municipality members and 15 representatives from community-based committees (20 persons in all) informed about aims, significance, and objectives of the project, discussed a set of problems available in the Hanarab Municipality, and focused on its social and economic potentials;
- **on August 27** round-table talks with 15 respected persons in the village were held. The event discussed major problems in the community and decision-making processes, tax-raising capacity of municipalities, and effective use of budgetary funds (fundraising);
- **on September 25** a round-table meeting with the participation of 14 young people and five (5) community members were held. The participants discussed key social problems and decision-making processes, and aired related views. They were informed about the "civil post initiatives";
- **on October 14** municipality members, respected persons in the village, and young people (22 persons in total) discussed designing of a social and economic development programme and a task group was formed.

4.3.3. **In the Aran Municipality:**

- **on September 25** a round-table meeting with the Aran chief municipality officer and seven (7) members of this municipality informed on activities to be implemented, detailed plans; discussed problems municipalities faced, as well as issues related to the budget, budgetary process, and forthcoming elections for municipality;

4.3.4. **In the Qaravelli Municipality:**

- **on November 27** round-table talks with respected persons and young groups (17 persons in total) in the community were held. The event dealt with aims and objectives of the project, the budget of the Qaravelli municipality; focused on its social and economic potentials and discussed a set of problems available in the this municipality;
- **on December 11** a round-table session with the participation of municipality members and intellectuals residing in this municipality (28 persons in total) was held. The event informed about the budget transparency project and joint activities to be performed with the local municipality. In addition, it discussed

social and economic problems to occur while revealing budget priorities of municipality.

5. Three –year municipality programmes on social and economic development (2006-2008) have been worked out. These programmes have been developed by taking into consideration specific features of the Municipality Councils thus containing existing social and economic problems in each municipality, decision-making processes, timeframe and extent of financial resources needed for such decision-making, and exact addresses of financial resources.

6. A draft budget of municipality as of next year and a catalogue of municipality documents reflected in the budgetary package have been worked out:

6.1. Formulation of municipality budget and budgetary process on Model Municipal Regulations have been implemented. Later on, this document has been individualised, discussed with municipality members to give final approval in the municipality session by taking into consideration specific features and local environment in the three municipalities. The said policy has detailed full procedures in the budgetary process, participants in the budgetary process, as well as their roles and responsibilities. So, municipalities managed to access the legislative document on the local budgetary process. Also, this process has been implemented according to this policy.

6.2. A package of budget documents have been designed for each of the three municipalities. This documentation includes the following:

- The draft budget for the next fiscal year;
- Classification of sources on budget receipts (it includes the list of land, property, etc tax payers in municipalities, as well as potential incomes from other sources);
- Report on execution of receipts and expenditures items in the budget for the reporting year;
- Detailed classification of budget expenditures;
- Required reference letter submitted for subsidies from the state budget;
- The catalogue of vulnerable (poverty) groups;
- The list of social assistance (by specifying the number of low-income families to be covered and the amount of benefits to be distributed).

7. Different stages of the local budgetary process, as well as budget decisions have been reported to local community members. It was aimed to inform either people on decision-making and implementation in local budgets or to formulate actual community levers in passing budget decisions. The following activities have been undertaken to this end:

- Municipality budget as at 2005 haws been put out in the local press and distributed to local communities. The 2005 budgets of the Barda Town and Hanarab Village Municipalities have been published in the January 1, 2005 issue of the newspaper ‘Barda’, while the 2005 budget of the Qaravelli Municipality has been published in the 6 January 2005 issue of the newspaper ‘Aran’ in Agcabedi. The publications have been distributed among local communities;

- Reports on municipality budget performance as of 2004 have been published in the local press. Reports related to 2004 budget performance of the Barda, Hanarab, and Qaravelli Municipalities, which were approved at the municipality meetings, have been published in the 15 April 2005 issue of the newspaper 'Barda';
- Corners for municipality information bank have been established. Such corners have been created in massive areas delegated to jurisdiction of the three municipalities, and all municipality decisions have been placed there for public comments.

8. Budget hearings have been organised. Each of the three municipalities have hosted public hearings, in order to report to people about the draft budget as of next year and to facilitate them to be involved in community discussions.

8.1 On December 28 the administrative building of the Barda Town Municipality saw a public hearing related to the 2005 municipal budget. The event was attended by over 130 community members. Yusif Nerimanov, the chief officer of this municipality, made a detailed statement on the subject "Budget prognosis as of 2005". The speaker responded to a great deal of questions and centered on each point following his speech. Most of the reporters failed to object to the existing version of the municipality bill.

The hearing was also attended by representatives from Aran Humanitarian Regional Development, local state administration authorities, adjacent municipality members, as well as a personality of the Barda newspaper as a guest.

8.2 At 15:30 through 17:30, December 28, the administrative building of the Qaravelli Municipality saw a public hearing related to the 2005 municipal budget. The event was attended by about 60 community members. Kazym Gulmaliyev, the chief officer of this municipality, made a detailed statement on the theme of "Budget prognosis as of 2005". Almost all the community members failed to object to the existing version of the draft document, after which the hearing was finalised.

The hearing was also witnessed by press personalities of the Aran newspaper.

8.3 On December 29 the administrative building of the Hanarab Village Municipality saw a public hearing related to the 2005 municipal budget. The event was attended by over 50 community members. Cavid Abdullayev, the chief officer of this municipality, made a speech on the subject "Budget prognosis as of 2005", and centered on each point at issue. Following his speech, municipality members and villagers focused on a catalogue of existing problems. In addition, the chief municipality expressed dissatisfaction that the land owners had leased their land lots to outside persons without concluding contracts with them, thus leading to tax-dodging. Some of the participants proposed to formulate strategy planning for the next year to avoid this problem. Later on, the participants voiced to the existing version of the draft document.

The hearing was also attended by a representative at Aran Humanitarian Regional Development, as well as a personality of the Barda newspaper.

Note: The public hearings in the three municipalities were organised in a due and proper form. Public advertisements detailing the place and date of the hearings to be held had been provided throughout different municipality areas prior to the event. The agenda and draft municipality budgets had been copied one day prior to the hearings. The files distributed to the participants during the hearings included this agenda and documents reflected in the budget package.

9. Appropriate documents to be required for grants from the state budget have been prepared. The following documents, including a statement aimed at justifying the subsidy amount, has been prepared and submitted to the Ministry of Finance for receiving grants from the state budget.

- A reference submitted by the municipality, in order to receive the State subsidy as of 2006 fiscal year;
- A report on estimated 2005 municipal budget outcomes;
- A report on actual 2004 municipal budget outcomes;
- Justification of receipts and expenditures as at the 2006 budget, as well as the amount of subsidies to be provided from the state budget and that of other financial aids;
- Auditor's opinion about budget performance in 2004;
- Municipality programmes on social and economic development (2006-2008);
- The 1 January, 2005 issue of the newspaper that has published municipality draft budget as of 2005;
- The 15 April, 2005 issue of the newspaper that has published municipality budget performance as of 2004;

10. Software "Transparency Budget" has been designed and distributed to the municipalities. The municipalities currently have been equipped with the computerised information and operation system for municipality management. The main objective of this system is to formulate a transparent, open, and accessible information network, enabling to trace the flow of municipality budget funds. This programme automatically implements municipality budget cashier performance for the entire fiscal year through a mechanism of mathematical calculations on one hand, and registers performance of forecasting figures in the local budget on the other hand. The programme has a complete information bank system related to taxpayers (both natural and legal entities), according to kind of payment. To explain operational principles of the software, 13 municipality members and officers in the Barda Municipality (March 28), 8 in the Hanarab Municipality (March 28), and 11 in the Qaravelli Municipality (March 29) have gone through training courses. Temur Ibadov for the Firm "Meridian" installed the software in the computer and gave detailed instructions about this programme, answered the questions fielded by the trainees. In addition, the training discussed comments and opinions made by municipality members.

11. Methodical manuals have been published. This programme aims to apply the experience gained through publication and distribution of these text-books, as the best

means. Based on the experience gained and practised from the activities of the three target municipalities, three (3) methodical manuals encompassing the following issues have been published to that end:

- budgetary documentation in municipality. The publication contains municipality budget formation, a Model Status/Regulation concerning the budgetary process, as well as all document patterns required for budget planning. The booklet has been published in A5 format, comprised of 68 pages in 1,500 copies.
- Municipality programmes on social and economic development. The publication deals with methodical and practical approaches needed for social and economic development programmes of self-governance, as well as certain patterns for municipality programmes on social and economic development in the person of the Barda and Hanarab Municipalities. The book consists of 64 pages in A5 format with 1,500 copies.
- Municipality budget management. The publication deals with social technologies necessary for public oversight over the budgetary process, as well as informs about information technologies aimed at efficiency of budget management in municipality. The book consists of 68 pages in A5 format with 1,500 copies.

The books will be distributed among institutions of self-governance, international organisations working in Azerbaijan, NGOs, media outlets, municipalities, students being majored in the self-governance, as well as ordinary citizens.

Note: These editions have been published with financial support within the AZBA31 Project.

12. A special TV programme on projects activities has been prepared and broadcast. On May 3 this year (at 17:15 to 17:45), a telecast on the subject “Transparency in municipality budgets” as part of the Economics programme upon the request of Expert Economic Magazine programme on independent Space TV was broadcast. A.Mehtiyev, the Project Coordinator, spoke of reasons for increasing initiatives aimed at gaining local budget transparency and R.Agayev, the Project Expert, detailed importance of social and information technologies applied for gaining local budget transparency in the three municipalities, as part of the budget transparency project. Y. Nerimanov, chief officer of this Barda Town Municipality, and C. Abdullayev, chief officer of the Hanarab Municipality, voiced their opinion about existing and strategic importance of cooperation as part of the budget transparency project.

Note: This telecast has been published with financial support within the AZBA31 Project.

2.5. The following outcome objectives have been gained from the project implementation:

1. Significant progress has been made in improving local legislative documents regulating the budgetary process and increase in municipality budget transparency. Since:

- Municipalities have been included in the system of governance as part of the government institution according to the amendment to the Law on the Status of Municipalities;

- The budgetary process in municipalities have been regulated with the state budget process according to the amendments and changes to the Law on Municipality Financing, Articles 9-13;
- The Clearinghouse has been authorised to make a fiscal examination of the local budget (on the basis of the inquiry of the body that takes an administrative control of municipalities, subject to the amendment to the Law on the Clearinghouse (Article 16.4).

2. Once the Regulation about municipality budget formation and budgetary process has been developed, municipalities have been implementing the budgetary process as per this Regulation. It promotes them to timely establish this process according to the bylaws;

3. Municipalities managed to gain experience in developing a package of local municipality documents by following all documents subject to provisions of the National legislation;

4. Municipality programmes on social and economic development (2006-2008) have been worked out. Municipalities gained experience in proper appraisal of budget priorities, as well as in related programming of social and economic development in their areas;

5. Municipalities gained experience how to develop document forms to be submitted to the Ministry of Finance for subsidies from the state fund. They have already submitted these documents to the said ministry;

6. Municipal mechanisms for access to outside financial sources to tackle local problems have been developed. They have been equipped with appropriate skills and habits to that end;

7. Local community members now have better access to detailed and accurate budget-related documents;

8. Public participation of local community members in the budgetary process have been broadened. In this connection, municipalities have applied appropriate social technologies;

9. Municipality chief officers and members have been instructed to develop budget documents with the widespread and direct participation of community members. The level of reporting to communities has increased. Relations between municipalities and locals are now based on mutual cooperation and trust. And, this has led to increase in the number of municipality tax payers, as well as in the amount of tax allocations;

10. Municipalities now have access to information technologies enabling to automatize the budgetary process and increase transparency: municipalities have been provided with computer sets each, as well as software “Transparency Budget” has been designed and distributed to them;

11. Methodical guidelines related to social and information technologies applied to local budget documentation, designing of municipality programmes on social and economic development, and budget management in the form of booklets have been published in multi-copes on the basis of the experience gained. And this will bring to broadest spread of such experience and enable other municipalities to get a benefit from it.

3. IMPACT OUTCOMES

The project's expected impact objectives:

Beneficiaries	Total	Male (%)	Female (%)
Number of direct beneficiaries	60	70	30
Number of indirect beneficiaries	89 000	52	48
Number of advocacy beneficiaries	1320	66	34

The first criterion: The project's impact on poor women, men, boys, and girls.

Failure to take into consideration public comments related to budget decisions, as well as municipality budget security thereof lead to negative outcomes. In this respect, it is worth speaking of primary impacts of applying public participation technologies, as part of the project – and notably holding budget hearings and arranging round-table meetings with a view to studying public opinion in identifying expenditure items in the budget. Since regular sessions with municipality members and community members who are direct beneficiaries have raised awareness about municipality budget and budgetary process, pave the way for their broadest participation in revealing municipality problems and decision-making processes. The activity level of participants had increased in next meetings compared to ones in the previous period, as well as they could voice more serious expectations from the municipality. The Hanarab Municipality budget had increased by 30 percent, while the Barda Town Municipality by 20 percent from its previous level owing to tax collections from local community members. Changes in the municipality budget structure also may be cited as a direct impact. It has been possible to gain a 30 percent increase in road construction covered by the 2005 budget following broadest discussions with community members during budget hearings in the Hanarab Municipality. The Barda Municipality budget hearing decided to pay AzM 100,000 a month to school-leavers who enter higher schools at higher scores. In addition, as a result of actions within the project, the amount of material benefits to poor people covered by the local budget of 2005 in the Barda Municipality increased by AzM 1mln compared with 2004, an increase in the number of beneficiaries reaching 20.

The second criterion: Changes in policies, actions, and credibility

1. The project's impact on the government and legislative power is reflected in the amendment to the Law on Municipal Finance:

The budgetary process in municipalities has been regulated with the state budget process according to the amendments and changes to the Law on Municipality Financing, Articles 9-13. This issue was sought in the book "How to analyse municipality budget"

published as long ago as May 2004, in which we had made certain proposals. Regulations and norms as defined in the Status on Municipality Budget Formulation and Budgetary Process, which was approved in the session arranged by the Budget Transparency Project Experts with the participation of our partnering municipalities have been approved without any amendment.

2. Changes have been sought in the activity and treatment of the municipality chiefs. Since municipality chiefs, members and officers have managed to learn how to develop municipality documents and programmes on social and economic development. In addition, they are much willing to formulate and approve municipality budget with the participation of community members, as well as to report to citizens about budget performance. It is proved by the facts that the Status related to local budgetary process is taken as a municipality normative act and people have significant access to this legislative document. Cavid Abdullayev, chief officer of the Hanarab Municipality, confessed changes in his outlook in terms of cooperation with the local people.

3. Application of social technologies that enable community members to be involved in decision-making processes, as well as duly organisation of municipality documentation were observed to create some positive changes in their outlook in terms of municipality expectations. Since:

- a) Surveys applied on beneficiaries and interviews with diverse sections of the population proved that activation in tax allocations to pilot municipality budgets is attended by community credibility, through which it is believed that public participation in decision-making processes will lead to significant outcomes.
- b) Approximately 75%-80% of the beneficiaries surveyed maintained that formulation of budget documents for submission to the Ministry of Finance may lead to positive changes in improving financial opportunities of the institutions for the self-governance.

4. Transparency initiatives in local budgets have become attracting the attention of civics institutions and international organisations. Since:

- a) As it is seen from section 5 of this report (“Extra-project activities according to the objectives of the project”), the interest of mass media, including electronic broadcasting agencies in particular, has been much focused on the fiscal activity of the municipality. Regularity of such tele- or radio casts and involvement of transparency budget project experts and Experts point to a positive impact of our activity on the communities.
- b) A representative from the World Bank (WB) in a conversation with Azer Mehtiyev, Coordinator of the ‘Transparency Budget’ Project, attributed importance to transparency initiatives in local budgets, stating that the organisation he represents intends to support related activities in Azerbaijan.

The third criterion: Milestones gained in providing gender equality

The National legislation avoids gender discrimination in terms of using municipality funds and participation in the local budget formulation. At the same time, the Regulation on budget formulation and budgetary process in municipalities issued by Expert Economic Magazine indicates importance of discussing municipality budget with

participation of categories of social groups, including women. Additionally, a set of objective factors arising out of local customs and traditions make it difficult to involve women in the self-governance in rural areas. Nevertheless, the issue related to gender equality has been the focus of attention during the project implementation. Since:

- a) 19% of participants in public hearings held in the Barda Municipality were women;
- b) Women were surveyed through questionnaires in revealing problems related to local social and economic development in the Hanarab Municipality, and their remarks have been taken into consideration in the municipality programme on social and economic development;
- c) The Barda Region Hospital hosted a session dedicated to existing social and economic problems with the participation of up to 20 educated women (doctors and teachers), and expectations voiced at the event have been reflected in the three-year municipality programme;
- d) Publications associated with the local budgetary process and public participation in municipality budget issued within the project are distributed to NGOs handling maternity problems.

The fourth criterion: Involvement of beneficiaries in project activities.

Participants of round-table discussions (226 persons), participants of public hearings (240 persons), participants of sessions in municipalities organised to discuss a set of problems (650 persons), participants of meetings held directly in district committees (175 persons), representatives of NGOs participating in radio and TV programmes, members of parliament (MPs) and government officials (30 persons) are direct, indirect, and advocacy beneficiaries of the project. Experts have made reports and speeches in events within the project, as well as categories of social groups have participated in discussions or received answers that they were going to field.

In addition, publications, including literature, methodical guidelines, and training materials, as well as opinions and ideas voiced in all sessions, round-table meetings are distributed among large sections of the population by direct beneficiaries.

The fifth criterion: Sustainability of positive changes in the lives of poor men and women

Sustainability of impacts obtained from arrangements and actions as part of the project can be evaluated from the following aspects:

- a) It is now worth speaking of some personnel, which professionally implement budget documentation of partnering municipalities, as they are able to continue related activities. A security for this sustainability can not be only their experience and skills acquired but also full automation/computerisation of budget management. That is to say, there are no two ways about it;
- b) We are said some donors are interested in municipalities concerned. For example, the Eurasian Fund has already voiced its intention;
- c) Budget discussions with community participation, publication of the draft budget in the press without fail have already been reflected in the regulations approved by the institutions of self-governance, as well as appropriate legislative document enacted in parliament. And, it paves the way for municipality accountability in participation

technologies and budget. It is expedient to take into account that both municipality officers and community members living in the project implementation areas have already gained relevant practice;

- d) Budget activities at local municipality level create serious perspectives for sustainable development in municipalities in terms of reorganising budget management under perfect standards and programming social and economic problems existing in their areas. In practice both outside and local donors show interest in neither economic unit nor municipality structure without exact strategy related to existing and perspective development.

4. COST-EFFECTIVENESS

All funds allocated within the projects (AzBA32, AzBA33) have been covered, in a due and proper manner, as agreed. More effective options have been sought for savings on costs. Expenses for some items have been cut, while others have spent a bit more:

4.1. Savings on AzBA32 and appointment

Costs on the following items in the budget have been saved during the project implementation:

- Arrangement of round-table discussions in the settlement municipality (as per item B3) – AzM 1,229,000. It is attended by delays with project activities in the Aran Municipality and failure to hold round-table discussions there;
- Travels to municipalities ss per item B5 - AzM 1,529,000. This saving has been possible owing to reduction in the number of travels because of the reason specified in the item above.

Total savings on AzBA32 have amounted to AzM 2,758,000

The savings have been directed at the following items:

As is well known, it was intended to purchase within the project computer sets and printing machines for hardware in the partnering municipalities. However, it became known in the project implementation period that there are serious problems with electricity in these municipalities: electric power is supplied intermittently, ie a couple of hours a day, thus causing problems with computers, as well as bringing to potential risks, including quick wear and tear of equipment in particular. To avoid these problems, it was necessary to purchase additional electric regulators to the municipalities. The following funds have been spent to purchase equipment, once the issue was agreed with Oxfam Azerbaijan (Letter 129 dated 25 October 2004):

Generator (one piece) –	AzM 550,000
UPS (three pieces) - AzM 638,000 x 3-	AzM 1,914,000
Power-system stabilizer (two pieces) - AzM 147,000 x 2-	AzM 294,000
<u>Total:</u>	<u>AzM 2,758,000</u>

4.2. Savings on AzBA33 and appointment

Costs on the following items have been **saved** owing to the reasons outlined below in project implementation:

1. Arrangement of round-table discussions in the village municipalities (as per item B3) – AzM 67,000. This saving has been due to less costs than expected;
2. Arrangement of round-table discussions in the town municipality (as per item B4) – AzM 236,000. This saving has been due to less costs than expected;
3. Business travels to project municipality areas (as per item B5) – AzM 1,481,090. This saving has been due to less daily expenses for gas and similar items;
4. Arrangement of public hearings in the village municipalities (as per items B8 and B9) – AzM 382,000. This saving has been due to less costs on would-be-paid rental fees;
5. Arrangement of public hearings in the town municipality (as per item B10) – AzM 310,000. This saving also has been due to less costs on would-be-paid rental fees;
6. Filling of toners in the project implementation areas (as per item B13) – AzM 311,600. As computers for the municipalities were bought late, they had to fill toners just one time (two times were intended under the project). Consequently, AZM 311,600 (AzM 103,600 for each municipality) have been saved;
7. TV and Radio programmes (as per item B7) – AzM 1,479,000. There is no TV channel in the region. Regarding the radio, as the radio system there is not well-organized, it was not expedient to prepare programs on the radio.

Total savings on AzBA33 have amounted to AzM 4,266,690

The following budget items have been subjected to **over-expenditure** during the project implementation:

1. Purchase of computers for the municipalities (as per item B11) - AzM 806,500
2. Purchase of laser printers for the municipalities (as per item B12) - AzM 712,500
3. Over-expenditure on other items - AzM 75,100

Total over-expenditure on the project - AzM 1,594,100

Note: Under the budget, it was planned to purchase each computer at \$500 and each laser printer at \$400. However, this equipment cost more expensive owing to rise in buying prices. The expenditure on the said equipment has added at the specified price, once the issue was agreed with Oxfam Azerbaijan (Letter 133 dated 3 October 2004).

Savings on costs within the project **have been spent** on the following items:

1. Payment to increase in the market value of computers and laser printers purchased for municipalities, as well as other over-expenditures - AzM 1,594,100
2. Designing of software “Transparency Budget” for the municipalities - AzM 2,682,950

Total: **AzM 4,277,050**

So, AzM 10,360 (ten thousand three hundred and sixty) has been spent to excess during the project implementation.

5. Non-project activities according to the project objectives

5.1. Articles and reviews concerning problems at issue have been repeatedly published in the press, and the project Experts have attended actions and events arranged by a variety of NGOs:

- **In October 2004** it became known that one of the amendments to the Tax Code by Government at submitting the 2005 draft state budget and a package of budget documents to parliament for discussions was aimed at restricting financial opportunities of municipalities with already limited financial resources. Since the proposed changes extended to replacement of property tax on citizens' vehicles (this tax was included in municipality budget) with road tax, and collection of this tax fees to the State Budget. Namely, instead of expanding financial potentiality of municipalities, Government deprives them an income source. To that end the road tax for next year is forecast to increase by AzM 54 billion in the State Budget as compared with 2004. This sum nearly equals total local funds of 2,700 municipalities. Rovshen Agayev, the Project Expert, first expressed "alarm" in the press (Azadlyk Newspaper, on the October 25, 2004 issue). This issue produced an echo, thus bringing to broadest discussions in both the press and parliament;

- In September 2004 Rovshen Agayev was involved as an expert in the civil forum held in Zagatala Town and the Nahchivan Autonomous Republic with funding from the U.S Agency for International Development (USAID) implemented by SRS, as part of the project "What does Municipality election matter for you? Who can elected and appointed people address community problems?". The event informed participants about the publications "How the municipal budget should be analysed?" and "Public hearing" ;

- On April 23 Azer Mehtiyev, Project Coordinator, and R.Agayev, Project Expert, participated as trainers in the event dedicated to the subject "Municipality budget documentation and local budgets transparency" at Barda organized by Aran Humanitarian Regional Development. They gave talks on the theme "Existing financial potentiality of municipalities in Azerbaijan", "Importance of providing security in municipality budgets", and informed the trainees about local budget management with the help of manuals.

5.2. The project executives have been involved in TV and Radio programs, and took comprehensive comments on municipality budget:

- **On October 1, 2004** (at 20:00 through 21:00), Rovshen Agayev appeared on Liberty Radio Channel and made a speech on the theme "Municipality problems on the threshold of election for institutions of self-governance". He fielded the reporter's questions about grounds for challenges in terms of financial potentiality in Azerbaijan, as well as increase in duties and responsibilities of the institutions of self-governance;

- **On November 10, 2004**, the issue related to the restriction of municipality financial opportunities was again discussed in a debate in the "Nezer Nogtesi" ("Point of view") program on ANS TV with the participation of Azer Mehtiyev and MP A.Alirzayev. Mr. Mehtiyev here was voiced concern over lack of transfer of transport taxes to municipality budget and sharp decrease in the amount of funds to municipalities from the state budget. In addition, he made proposals on expansion of financial opportunities of municipality;

- **On November 15, 2004**, Azer Mehtiyev participated as an expert in a talk-show programme in the theme of “Municipality financial opportunities and potentiality on Gence TV. The talk show was attended by the Kepez and Nizami District Municipality Officers in Gence City, the chief of the Hesensu Village Municipality at Akstafa, local state administration authorities, the chief of the zone tax department at the Ministry for Taxes. Representatives from NGOs, as well as community members. The event discussed funding sources of municipality budgets, use of budget funds, public attitude towards municipalities and tax payment, allocations to municipalities from the State Budget, etc. issues;

- **On December 5, 2004** (at 17:15 through 17:45), Rovshen Agayev appeared on Space TV Channel and gave a talk in the theme “What do the 2005 State Budget and tax changes promise municipalities?”. The program was also attended by Shaittin Aliyev, Deputy Chair of the standing commission for Regional issues in Parliament. The program discussed the impact of amendments in the Tax legislation on financial opportunities of municipalities, government subsidies from the State Budget, as well as issues, such as the amount of these subsidies, mechanisms for them, etc;

- **On December 15, 2004**, Rovshen Agayev, in the capacity of expert, appeared in the program called “Cooperation among municipalities, NGOs and mass media and perspectives” on Alternative TV Channel in Gence. In his speech the expert dwelled on weak relations between municipalities and the third sector and reasons that impede this process, as well as he fielded the questions related to duties and responsibilities before institutions of self-governance, mass media, and NGOs.

5.3. Broad contacts have been established. .

- Contacts with Shahittin Aliyev, Deputy Chair of the standing commission for Regional issues in Parliament, have been established during the project implementation. Mr. Aliyev by appraising our publications related to municipality budgets, as well as similar activities of ours, maintained that municipalities are in need of such methodical text-books. He also expressed willingness to cooperate with us over the period into the future.

- **On March 30, 2005**, the meeting between L.Karimli, Oxfam Programme and Policy Officer, and A.Mehtiyev, Project Coordinator, with C.Costopoulos, an economist for Azerbaijan at the World Bank’s Poverty Reduction and Economic Department for Europe and Central Asia, and Emin Huseyinov, an economist of the said organisation, informed about municipality activities within the project. The information attracted the attention of the WB representatives. The latter said WB intends soon to launch projects to be aimed at municipality development programmes. They also said they would appeal our Experts, in order to be benefited from our experience.

- **On May 5, 2005**, Azer Mehtiyev and Rovshen Agayev met with Ondrey Simek, Program Coordinator for Budapest of the Open Society Institute – Assistance Fund (OSI –AF) at the latter’s request. The meeting exchanged views on decentralisation in public financing in Azerbaijan, and expansion of financial opportunities of municipalities. Mr. Simek said the Budapest Division of OSI –AF

plans to launch an international conference in this field this autumn. He was reported about strengthening of financial opportunities of municipalities, especially activities on transparency of municipality budgets implemented within the project. He was much pleased with the information. He also stressed that he would like our participation in organising the conference and invite our project team to the conference.

- Barat Azizov, Program Leader of Catholic Relief Services (CRS) in Azerbaijan, met on May 11 this year Rovshen Agayev and asked the latter to inform about our activities related to municipalities. Mr. Azizov said this autumn his organisation plans to design training seminars on budget organisation with municipalities in the western part of Azerbaijan (in Gence and around it), adding that they are much willing to use manuals issued as part of the Transparency Budget Project and also wondered whether the project Experts could be involved in their events as trainers. It has been decided to develop cooperation.

5. NEW IDEAS AND FUTURE PLANS

We have drawn some lesson from the project implemented at municipality budget level. We will consider the following in an activity of ours in the period ahead:

5.1. The project implementation once again showed that it is impossible to establish partnership with municipalities who are unable to maintain friendly relations with local state administration authorities. Since our cooperation failed with the Aran Settlement Municipality at Yevlah, to that end. The relations set between the executive power and municipality officer brought to paralysis of the latter, thus leading to failure to further cooperate with the Aran Municipality within the project.

5.2. Application of social technologies and hardware in municipalities within the project should be implemented in parallel. Otherwise, it becomes difficult to formulate a complex approach in the opinion of municipality authorities related to the project, thus leading to incompleteness in activities and presenting difficulties for duly implementation of project activities.

5.3. There is a need to identify the activity level of community members, as well as their credibility in municipality when selecting municipalities. It is impossible to gain project objectives within a short period of time in a municipality area where the people are socially passive and public opinion about municipalities is negative.

5.4. It is essential to take into consideration availability of financial opportunities with municipalities to be selected that may meet their minimum community needs.

5.5. Gender inequality problem is observed in the municipal field to some extent, being the focus of attention in the next stage of the project.

5.6. It is necessary to make sure that electronic broadcasting in the regions is insufficient or it is available to a extent that cannot influence the public opinion. As is well known, it

was projected to prepare programmes on local TV and Radio channels. However, we managed to know during the implementation period that there is no TV channel in the project implementation area (Barda and Agcabedi), while the Radio Channel in Barda Town is not satisfactory, and the locals, therefore, show no interest in it. Regarding TV channels in Mingechevir and Gence cities, they are not reached these regions. Therefore, in this stage of the project use of newspapers and magazines can be accessible, in order to raise public awareness.

5.7. It is strongly recommended that application opportunities and potential efficiency of public participation technologies be determined exactly when selecting them for community members. To that end, it is essential to place more emphasis on literacy level, customs and traditions, etc. factors of the population residing in a certain area. Lack of justification of the post for budget initiatives of the people can be a graphic example for this. In fact, this was sought a perfect mechanism in terms of involving the people in budget-related community participation who had difficulty or felt shy to express their comments and ideas in public or who showed unwillingness for any of several reasons. Unfortunately, we failed to change the indifferent of the community members to the public initiative post, despite our propaganda in meetings attended by relevant social groups or availability of advertisement in the municipality areas, which explained the post context and significance. Nevertheless, if a few people attended round-table meetings in the beginning period, we saw them take an active part in further sessions and meetings within a short period of time. It permits us to say that the people are willing to participate in the budgetary process. Simply, it is essential to be careful in choosing participation technologies. Here, we should not miss two factors below:

- Majority of the people prefer to give voice in public but not in private, contrary to what we think;
- practice and observations prove that for people, it is easier and more convenient to give voice orally than to do it in writing.

5.8. We made sure during our arrangements with municipal offices that expansion of activities related to: a) organisation of budget-related documents in municipalities; **b)** application of public participation technologies in the budgetary process; c) application of information technologies to budget management will pave the way for improvement in initiatives related to budget transparency, as well as increasing sustainability of outcomes gained. Therefore, concluding ‘the lesson’ and experience gained in the example of the three municipalities, it was decided to continue our activities in additional ten (10) municipalities in the next stage of the project.

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